

Destination-based Sales Tax

With passage of Substitute Senate Bill 5089 ("Streamlined Sales Tax"), Washington will change from an origin-based system for local retail sales tax to a destination-based system.

What is the change?

Currently, Washington retailers collect local sales tax based on the jurisdiction from which a product is shipped or delivered - "origin-based." Starting July 1, 2008, they will need to collect based on the destination of the shipment or delivery - "destination-based." This only affects shipments and deliveries to locations within Washington State.

Effective date: July 1, 2008

Until July 1, 2008, nothing changes about the way you collect, report, and remit retail sales tax.

Who is affected?

Destination-based sales tax will **apply only to businesses that ship or deliver** the goods they sell to locations within Washington. Under the new rules, if a retailer delivers or ships merchandise to a buyer in Washington State, the sales tax is collected based on the rate at the location where the buyer receives or takes possession of the merchandise.

There is **no change** for deliveries outside the state or over-the-counter sales where customers take home goods from the store location.

Who is not affected?

If you do not ship or deliver, nothing will change about the way you handle sales tax.

For example, if a buyer receives merchandise at your retail business location, sales tax continues to be based on that location – the "origin" of the sale.

Additionally, this change does not affect:

- Deliveries to locations outside the state of Washington
- Wholesale sales
- Services
- Sales of motor vehicles, trailers, semi-trailers, aircraft, watercraft, modular homes, and manufactured and mobile homes. Sales tax will continue to be based on the seller's location even if the seller delivers the items to customers.
- Towing companies

Is help available?

To help retailers transition to destination-based sales tax, the state Department of Revenue is providing web resources, workshops, tutorials, and other assistance. In addition, after July 1, 2008, certain small retailers are eligible for up to a \$1,000 tax credit (to offset any necessary changes to their accounting, point-of-sale, or other systems) or two years of assistance from a certified service provider (CSP) – a third party that handles the coding and files the sales tax returns for businesses. The credit will be available on the excise tax return, beginning with the July 2008 return.

Retailers are eligible if they meet all of the following requirements:

- Gross less than \$500,000 in Washington sales annually;
- Receive at least five percent of their taxable sales income from deliveries; and
- Receive at least one percent of their taxable sales income from deliveries outside the jurisdiction where they collect the most sales tax.

If your business meets the above criteria, you need only document that you incurred expenses in implementing destination-based sourcing. Retailers that are eligible for the credit or free CSP will not be liable for penalties or interest if errors are made due to the destination-based sales tax change.

For more information

Visit the Department of Revenue's website at:

<http://dor.wa.gov/Content/FindTaxesAndRates/RetailSalesTax/DestinationBased/default.aspx>